



Government of
Saskatchewan

2007 Annual Report

Municipal Employees'
Pension Commission

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This annual report is available in electronic format at www.peba.gov.sk.ca/mepphome.htm

Letters of Transmittal



His Honour, The Honourable Dr. Gordon L. Barnhart
Lieutenant Governor of Saskatchewan

May it Please Your Honour:

I respectfully submit the Annual Report of the Municipal Employees' Pension Commission for the year ending December 31, 2007.

A handwritten signature in cursive script, reading "Rod Gantefer".

Rod Gantefer
Minister of Finance

Rod Gantefer
Minister of Finance

Sir:

On behalf of the Municipal Employees' Pension Commission, I have the honour of submitting the Annual Report of the Municipal Employees' Pension Commission for the year ending December 31, 2007.

A handwritten signature in cursive script, reading "Carrie McCoshen".

Carrie McCoshen
Chair

Chair's Comments

On behalf of the Municipal Employees' Pension Commission, I am pleased to present the 2007 Annual Report of the Municipal Employees' Pension Commission.

The mandate of the Commission is to oversee and direct the administration of the Plan and manage the assets in the best interests of its members and their beneficiaries. The Commission's multi-year strategic plan sets out initiatives and activities in the categories of Effective Communications, Plan Governance, Risk Management, Service Delivery and Plan Design. These activities further the mandate; this annual report provides details of activities in 2007.

For the first time, a publication outlining the Plan's highlights for the year was produced. This four page summary was sent to all members in June. It was created to be a means of increasing understanding of the Plan and will become an annual information tool for members. A process for consulting with stakeholders was developed and will be undertaken in 2008.

The Commission conducted a complete review of its Governance Manual. As a result of that review, the Commission developed policies to fill identified gaps. A policy was created to clarify the roles and responsibilities in providing retirement planning information. As well a funding policy was created to assist in managing the financial status of the Plan.

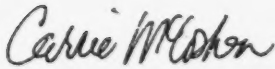
The MEPP Employer Remittance System was developed and completed, allowing employers to remit contribution information over the web, and streamlining the process of posting member contributions.

In managing plan assets, the Commission reviews the performance of the MEPP Fund in terms of the performance of a benchmark portfolio over rolling four-year periods. The Commission also measures the performance of individual investment managers against the objectives set for their individual portfolios. The Plan remains fully funded with a small surplus.

Over the past four years, the Fund exceeded the benchmark by a percentage point, achieving an annualized return of 10.3 per cent. In 2007, the Fund outperformed the benchmark by 0.9 percentage points, achieving a return of 4.2 per cent. Information on the Plan's investments, investment objectives, and fund performance are provided in this report. A financial highlights section provides an overview of Fund performance over the last decade.

This report provides information about the Cash Flow Forecast, Operating Expenditures, Pension Payments and plan membership in the Plan Expenditures and Statistics section.

It is my privilege to chair the Municipal Employees' Pension Commission and to present this Annual Report.



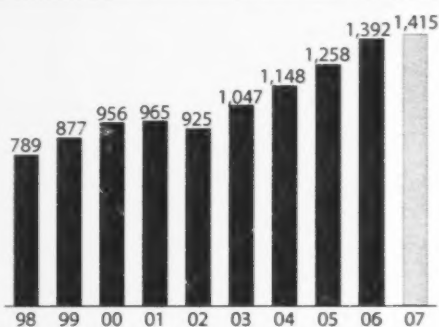
Carrie McCoshen
Commission Chair

Financial Highlights

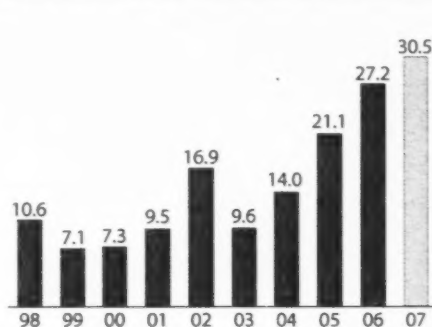
Total MEPP Fund Investment Performance

	Annual Returns (%)									
	2007	2006	2005	2004	2003	2002	2001	2000	1999	1998
Total Fund Real Return	4.2	13.6	12.1	11.4	14.9	(2.1)	2.6	10.4	12.7	10.3
Benchmark	3.3	12.9	10.6	9.8	14.5	(6.1)	(3.2)	6.0	13.5	9.9
	Rolling 4-year Average Returns %									
Total Fund Real Return	10.3	13.0	8.9	6.5	6.2	5.7	8.9	12.7	14.9	15.7
Benchmark	9.3	12.0	6.9	3.4	2.5	2.3	6.4	10.8	13.7	14.9

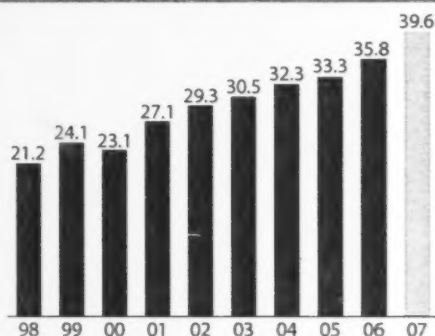
Total Assets (\$ millions)



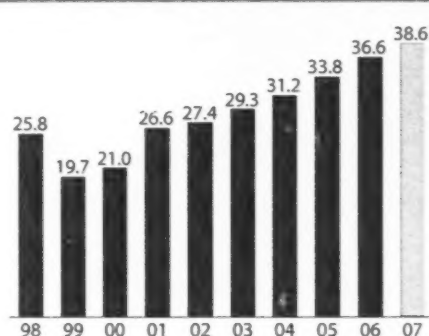
Transfers, Refunds & Benefit Payments (\$ millions)



Total Contributions & Transfers-in (\$ millions)



Pension Payroll (\$ millions)



Comparative Investment and Administration Costs (000s)

	2007	2006	2005	2004	2003	2002	2001	2000	1999	1998
Administration costs	2,822	2,540	2,328	2,051	2,643	2,660	2,068	2,279	2,251	1,691
Custodial fees	207	128	131	128	164	95	96	104	86	86
Investment Management fees	3,906	3,237	2,708	2,296	2,001	1,996	1,767	1,802	1,596	1,270
Totals	6,935	5,905	5,167	4,475	4,808	4,751	3,931	4,185	3,933	3,047

Introduction

The Municipal Employees' Pension Plan (MEPP) is a 'defined benefit' plan, which means that pensions are based on a formula that provides pension, disability, death and termination benefits for all eligible members. The formula is based on highest average salary, pensionable service and the accrual rate in effect during the years of service.

Participating members contribute a fixed percentage of salary. Employers match these contributions.

The amount of pension a member will receive is not directly related to investment returns. Positive investment returns are necessary to secure the Plan's ability to pay benefits and are the major contributor to surplus.

Under normal retirement rules, most members may retire and receive a pension with no reduction if they are 65 years of age or if their age plus eligibility service equal at least 80 years. Most members may retire and receive a reduced pension if they have reached age 55 and have at least 15 years of eligibility service. Designated firefighters and police officers may receive an unreduced pension if their age plus eligibility service equal at least 75, they are 55 years of age, or have at least 25 years of eligibility service. These members may retire and receive a reduced pension if they have reached age 45 and their age plus eligibility service equal at least 70.

MEPP's history begins in the 1940s. Initially, the *Rural Municipal Secretary Treasurer's Superannuation Plan* was established in 1941. In 1949, the *Urban Employees' Superannuation Plan* was established. In 1959, these two plans joined to form the *Municipal Employees' Superannuation Plan*, which became the current plan in 1973.

MEPP is registered under the *Income Tax Act* (Canada) and is governed by *The Municipal Employees' Pension Act* and related Regulations; and *The Pension Benefits Act, 1992* and related Regulations.

The Plan holds more than \$1.4 billion in total assets. MEPP's membership consists of over 16,000 members and 4,000 pensioners.

The Municipal Employees' Pension Commission (the Commission) administers MEPP. The Commission has the fiduciary responsibility for administering MEPP and managing the investment activities in the best interests of all MEPP members and beneficiaries.

The Commission has 10 members, five appointed on behalf of participating employers and five on behalf of employees. The full term of office for Commission members is four years. A member may be appointed for two full terms. Each year the Commission members elect a Chair and a Vice-Chair. At December 31, 2007 the Commission was composed of the members listed in *Table 1.1*.

The Commission is ultimately responsible for the Plan's administration, communication and investment activities. To discharge these responsibilities, the Commission uses the services of various organizations.

The Commission contracts with the Public Employees Benefits Agency (PEBA) to provide administrative services for the Plan. PEBA is part of the Ministry of Finance, Government of Saskatchewan, and administers a wide range of pension and benefits plans.

Under contract with the Commission, PEBA:

- Provides pension estimates, estimates on breakdowns of spousal relationships, and transfer values for members wishing to transfer into MEPP from other pension plans;
- Prepares annual member statements by the end of March of each year;
- Calculates termination, pension, and death benefits;
- Prepares statements to members regarding significant life events that affect Plan membership, such as termination, death, and the breakdown of spousal relationships;
- Accounts for all investment transactions;
- Collects members' and employers' contributions; and
- Provides executive management services to the Commission.

Introduction

PEBA is responsible for ensuring that all transactions are made in accordance with *The Municipal Employees' Pension Act*, *The Pension Benefits Act*, 1992, and their related regulations.

The Commission retains RBC Dexia Investor Services Trust as the Plan custodian and Hewitt Associates as the investment consultant. The Commission also retains the eight investment managers listed in *Table 1.5* on page 20.

The Commission's mission:

To oversee and direct the administration of the Plan and manage its assets in the best interests of members.

The Commission's goals:

COMMUNICATION

Educate and inform plan members, beneficiaries, employers and plan sponsors through clear, timely and relevant communication of their benefits, duties and obligations under the Plan in a responsive and proactive way.

DECISION-MAKING PRINCIPLES

Make timely decisions in an open and consultative manner that adheres to the principles of procedural fairness and natural justice to ensure fair and equitable treatment in the best interests of plan members.

MANAGEMENT OF ASSETS AND LIABILITIES

Ensure the short-term and long-term solvency of the Plan by developing prudent investment policies that balance potential risk and return. The funding policy enables the Commission to be proactive in managing the financial status of the Plan and helps to facilitate communication with stakeholders on the status of the Plan.

COST-EFFECTIVE ADMINISTRATION

Ensure MEPP members receive cost-effective and efficient pension services.

RESPONSIVE TO MEMBER NEEDS

Ensure an equitable plan design that reflects the diversity of the membership and takes into account pension industry standards, trends and the Saskatchewan environment.

ACCOUNTABILITY

Ensure accountability when carrying out its governance responsibilities. In keeping with best practice standards, its fiduciary responsibilities and statutory requirements, the Commission will obtain advice from pension industry experts to meet its fiduciary responsibilities and educational needs. The Commission will also conduct a periodic self-assessment of the governance framework.

Municipal Employees' Pension Commission Members at December 31, 2007

NAME	POSITION	APPOINTING BODY
Earl Braun	Member	Associations representing Designated Police Officers and Firefighters
Richard Buettner	Member	Saskatchewan School Boards Association
Jim Hallick	Member	The Saskatchewan Association of Rural Municipalities ¹
Allan Johnson	Member	Regional Colleges/Regional Libraries
Carrie McCoshen	Vice-Chair	Trade Unions representing employees who are members of the Plan
Bonnie Ozirny	Chair	Saskatchewan School Boards Association
Ralph Paquin	Member	The Saskatchewan Association of School Business Officials
Orrin Redden	Member	The Urban Municipal Administrators' Association of Saskatchewan
Kevin Ritchie	Member	The Rural Municipal Administrators' Association of Saskatchewan ²
Roland Zimmer	Member	The Saskatchewan Urban Municipalities Association

¹ David Marit also served in 2007.

² Jim Reiter also served in 2007.

Table 1.1

Strategic Initiatives

In 2006, the Commission adopted its multi-year Strategic Plan to achieve its stated goals through to 2009.

The Strategic Plan allows the Commission to focus on making key decisions that set a clear direction for the future of the Plan. Annual results are used to assess overall progress toward goals and initiatives and to adjust future plans and activities. Regular reporting allows the Commission to make necessary changes to resource allocations.

The Strategic Plan sets out initiatives and activities for the planning period within five categories:

1. Effective Communications:

to meet the goal of Communication

2. Plan Governance:

to meet the goals of Decision-making Principles and Accountability

3. Risk Management:

to meet the goals of Management of Assets and Liabilities and Cost-Effective Administration

4. Service Delivery:

to meet the goal of Responsive to Member Needs

5. Plan Design:

to meet the goals of Responsive to Member Needs and Accountability

1. Effective Communications

In 2006 with the assistance of Mercer Human Resources Consulting (Mercer), the Commission developed and adopted a three-year communication plan called *MEPP Exchange* to address gaps in Plan communications.

The three-year communications plan included a strategy for consulting with stakeholders, tactics for effectively meeting member information and education needs and ongoing measurement and evaluation.

These initiatives are the major elements within *MEPP Exchange*:

- Develop and communicate a policy on MEPP employer responsibilities;
- Enhance telephone customer service capabilities;
- Enhance the MEPP face-to-face presentation program;
- Assist members with retirement information;
- Establish a stakeholder consultation process; and,
- Enhance measurement and reporting on MEPP communications.

Published materials are available from the PEBA website at www.peba.gov.sk.ca.
Printed copies of these materials may be obtained by telephone, FAX or e-mail request.

Strategic Initiatives

Effective Communications Activities

Activities planned for 2007

In 2007, the Commission planned to focus on the following communication priorities:

Strategic Initiatives

- Finalize a policy regarding employer responsibilities and the Plan's role in providing retirement planning information.
- Track and measure MEPP telephone customer service into 2008. If a full operational review is undertaken, it will be agency-wide; therefore, consideration will be given to the time and cost implications of such a review before proceeding.
- Develop channels for increased distribution of *MEPP in-Depth* bulletins, include appropriate bulletins in new hire and retirement options packages, conduct regular reviews of bulletins, and build on our presentations by targeting new members.
- Review member communications, update and revise as required, and seek opportunities to provide enhanced communications that guide members through targeted phases of plan membership and the transition into retirement.

Communications Strategies

- Continue implementing *MEPP Exchange* through 2007 and 2008.

Reporting

- Enhance information in the Annual Report.
- Introduce and mail a four-page summary report based on the annual report to members and employers.
- Review the annual letter about indexing for pensioners and incorporate additional information.

Employer Information

- Conduct regular reviews of bulletins.
- Re-write, reorganize, reformat and distribute a new Employer Manual to all MEPP employers.

Face-to-Face Member Information

- Continue promoting presentations in the Plan newsletter and on the PEBA website.
- Build on the presentation program by identifying information of particular interest to new members. Develop a bulletin that targets new members and distribute the bulletin to new members at member presentations.
- Continue to have MEPP operations staff deliver presentations and attend trade shows where they can meet and interact with Plan members and employers.

Newsletters

- Publish and mail the plan newsletter, *MEPP Matters*, to members, pensioners, employers, trade union representatives and Commission members in May and November of 2007.

Activities accomplished in 2007

Strategic Initiatives

- The Commission developed a policy about employer responsibilities and the Plan's role in providing retirement planning information. The policy defines goals and guidelines for sharing information with MEPP employers, members and beneficiaries. The policy was created to clarify the roles and responsibilities of the Commission, PEBA employees, and

Strategic Initiatives

employers in providing information to members. The policy will be communicated in 2008.

- Tracking and measurement of MEPP telephone customer service will continue into 2008.
- All PEBA staff involved in the administration of MEPP attended the course "Dealing with Difficult Customers" offered by the Saskatchewan Institute of Applied Science and Technology (SIAST).
- Reminders about *MEPP In-Depth* bulletins were included in *MEPP Matters* and at presentations on the Employer Electronic Remittance project.
- Existing employer bulletins and member communications were updated in 2007 and are reviewed for content regularly and revised as needed.
- A new Employer Manual was in development in 2007. It will be made available to all MEPP employers in 2008.

Communications Strategies

- Implementation of strategic initiatives planned in *MEPP Exchange* continued through 2007.

Reporting

- Annual letters about indexing were sent to pensioners on January 19, 2007.
- Annual Member Statements were mailed to members on March 16, 2007.
- On April 16, 2007 member statements were mailed to members who were on leave or layoff before December 31, 2006.
- In April 2007, the MEPP Annual Report for 2006 was forwarded to the Clerk of the Saskatchewan Legislative Assembly before the deadline for tabling.
- The MEPP Annual Report was enhanced to focus more on critical aspects of performance.
- A four-page summary of 2007 MEPP highlights, a recommendation of *MEPP Exchange*, was created for the first time. The document was distributed by mail to all members with *MEPP Matters* in June 2007.

Employer Information

- PEBA participated in six Rural Municipal Administrators' Association and Urban Municipal Administrators' Association joint training sessions that were held during the weeks of November 19, 2007 and November 26, 2007. There were approximately 250 attendees. The presentations received an average rating of 3.66 / 4 in attendee evaluations.
- The annual year-end letter was mailed to all employers in December 2007. Information was expanded to include the electronic Employer Remittance Project, member and employer information sessions and to indicate more information would be coming on employer communication responsibilities.

Face-to-Face Member Information

- MEPP was represented at three stakeholder trade shows in 2007.
- Seven member overview presentations were delivered in four Saskatchewan locations to a total of 196 members.
- The fall 2007 *MEPP Matters* promoted Plan presentations and at the same time introduced new staff including a Retirement Information Coordinator (RIC) and a Customer Focus Coordinator (CFC) who will be working to improve member and employer communications.
- MEPP's new RIC began developing additional retirement planning information for use at retirement sessions.
- MEPP's new CFC began assisting in the development of communications material for employees and employers.

Newsletters

- *MEPP Matters* newsletters were mailed to MEPP members, retirees and employers in June and November of 2007.

Strategic Initiatives

Activities Planned for 2008

Strategic Initiatives

- The policy on employer responsibilities under MEPP developed in 2007 will be communicated to employers by Employer Bulletin in 2008.
- PEBA will continue creating, reviewing, revising, and updating member communications.
- Retirement planning information will be shared as set out in the policy adopted in 2006.
- A stakeholder consultation process will commence in 2008. The Commission is undertaking stakeholder consultation (initially with governing bodies) to discuss options to maintain the Plan related to employee and employer contributions.
- The Employer Administration Manual review and update will be completed and distributed to employers in 2008. The manual will guide employers in pension administrative processes.

Communications Strategies

- Work will continue on addressing the recommendations of *MEPP Exchange*, which will move into its third and final year. As the Commission finalizes the plan, it will also evaluate the plan's effectiveness.
- Communications initiatives outlined in the MEPP Employer Electronic Remittance Project communications strategy will be followed up in 2008.

Reporting

- There will be a continued emphasis on reporting in the Annual Report so that a focus on performance reporting can be maintained.
- A four-page summary of annual MEPP highlights will again be provided to members.

Employer Information

- All communications materials (including the MEPP website) will continue to be regularly reviewed to ensure the information provided is current, accurate and understandable.
- The Employer Manual will be distributed to employers in 2008.

Face-to-Face Member Information

- Continue representing MEPP at stakeholder trade shows.
- Continue delivering member presentations when requested by a group of 20 or more.
- Continue promoting presentations in the Plan newsletter and on the PEBA website.
- Continue working to improve the quality of information provided in presentations.
- Continue to develop retirement planning information for presentation at retirement sessions.

Newsletters

- Twice in 2008, publish and mail the Plan newsletter, *MEPP Matters*, to members, pensioners, employers, trade union representatives and Commission members. Delivery of the the newsletter is planned for May and November.

Strategic Initiatives

Seminars, Courses and Other Events Attended by Commission Members in 2007

Commission Member	Education Events Attended	Registration Fees (Total)
Earl Braun	- Annual Pension Information Session (PEBA) - Advanced Trustee Development Course (Humber College)	\$1,325
Richard Buettner	- Annual Pension Information Session (PEBA) - Advanced Trustee Development Course (Humber College) - Goldman Sachs Presentation - Mercer 2007 Fearless Forecast - Essential Skills for Pension Committee Members	\$3,175
Jim Hallick	Basic Investment Principles (Hewitt Associates)	—
Allan Johnson	- Annual Pension Information Session (PEBA) - Advanced Trustee Development Course (Humber College) - CPBI Winds of Change¹ - Mercer 2007 Fearless Forecast	\$2,635
David Marit*	Essential Skills for Pension Committee Members	\$1,525
Carrie McCoshen	- Annual Pension Information Session (PEBA) - Advanced Trustee Development Course (Humber College) - CUPE Pension Trustees - CLC Pension Conference²	\$2,075
Bonnie Ozimy	- Annual Pension Information Session (PEBA) - Goldman Sachs Presentation - Advanced Trustee Development Course (Humber College)	\$1,325
Ralph Paquin	- Annual Pension Information Session (PEBA) - Basic Investment Principles (Hewitt Associates) - Advanced Trustee Development Course (Humber College)	\$1,325
Orrin Redden	Annual Pension Information Session (PEBA)	\$175
Jim Reiter*	- Annual Pension Information Session (PEBA) - Essential Skills for Pension Committee Members - CPBI Lunch Series¹ - CPBI Governance Series¹ - Spring Seminar and Annual General Meeting (CPBI)¹	\$1,990
Kevin Ritchie	- Annual Pension Information Session (PEBA) - Basic Investment Principles (Hewitt Associates)	\$175
Roland Zimmer	- Annual Pension Information Session (PEBA) - Basic Investment Principles (Hewitt Associates) - Essential Skills for Pension Committee Members - Advanced Trustee Development Course (Humber College) - Pension Investment Management School (Mercer Investment Consulting, Frank Russell Canada and the Schulich School of Business, York University) - Spring Seminar and Annual General Meeting (CPBI)¹ - Liability Driven Investment Conference	\$7,525

¹ Canadian Pension and Benefits Institute

² Canadian Labour Congress

* Served on Commission for part of 2007

This table is referenced under Plan Governance on page 12.

Table 1.2

Strategic Initiatives

2. Plan Governance

Plan governance is the process and structure used to administer pension plans in accordance with legislative requirements and in the best interests of plan members.

The Commission has adopted the following principles using the guidelines established by the Canadian Association of Pension Supervisory Authorities (CAPSA):

- The Commission has a fiduciary responsibility to plan members;
- Governance objectives are established for the oversight, management and administration of the Plan;
- The roles, responsibilities and accountabilities of all participants are clearly described and documented;
- Performance measures are established, monitored and reported;
- Plan administrators have the duty to apply the knowledge and skills needed to meet governance responsibilities (see *Table 1.2*);
- Plan administrators should have access to relevant, timely and accurate information;
- Establish an internal control framework to address the Plan's risks;
- Establish appropriate mechanisms to oversee and ensure compliance with legislative requirements, pension plan documents and administrative policies;

- Communicate the governance process to plan members, beneficiaries and other stakeholders to facilitate transparency and accountability;
- Establish a code of conduct and a policy to deal with conflicts of interest; and
- Conduct a regular review of plan governance.

In developing processes consistent with governance principles, the Commission:

- Hires a custodian and plan administrator, as well as professional investment managers, to provide expertise in managing MEPP;
- Has in place a governance manual with a code of conduct and conflict of interest procedures;
- Monitors plan performance on a quarterly basis and evaluates the performance of investment managers;
- Has implemented a communications plan with communications tools to inform and educate plan members about MEPP; and
- Annually reviews the governance process and conducts a self-assessment.

Plan Governance Activities

Activities planned for 2007

In 2007, the Commission planned to focus on the following governance priorities:

- Conduct an annual assessment of the Plan governance program;
- Develop policies as needed;
- Review the effectiveness of the Commission's knowledge and skill development process; and,
- Conduct a comprehensive review and renewal of the Commission's strategic business plan.

Activities accomplished in 2007

- The Commission conducted a complete review of its Governance Manual and approved additions and changes as required.
- In reviewing the Policy Manual and identifying gaps in policy, the Commission approved policies for the Provision of Retirement Planning Information, Employer Communications and the Funding Policy.
- Commission members undertook training, as outlined in *Table 1.2*.
- The Commission updated and reviewed its Strategic Business Plan.

- Performance reviews of Hewitt Associates, RBC Dexia Investor Services, the Plan's actuary, Eckler Ltd., and the Plan's auditor, Meyers Norris Penny (MNP), were provided to the Commission.
- The Commission received quarterly reports on PEBA performance with regard to its administrative responsibilities for the Plan.
- The Commission reviewed its existing reporting structure and updated its Governance Manual to more clearly outline needed activities and allocation of specific responsibilities.
- The Commission revised and completed its self-assessment, which indicated a high degree of satisfaction with the Commission's method of functioning and discharging its governance duties.
- All Commission members signed their Code of Conduct and Conflict of Interest Procedures for 2007.

Activities planned for 2008

In 2008, the Commission will focus on the following activities:

- Conduct an annual assessment of the Plan's governance program;
- Review the effectiveness of the Commission's knowledge and skill development process;
- Identify the measures in place for accountability through performance measures and reporting;
- Determine how to strengthen the Commission's orientation process and assess the value of a mentoring program;
- Assess the role of the Chair and make recommendations for changes as required;
- Develop performance measures for communication based on policies developed and objectives identified in the CAPSA Governance Self-Assessment Questionnaire;
- Implement rules and procedures for receiving, reviewing and acting on information and reports;
- Work towards the completion of the Plan's policy manual; and,
- Conduct a review of how the Commission allocates its time and sets its agendas.

3. Risk Management

The Commission has identified the following potential risks that could adversely impact the operation of the Plan:

- Insufficient assets to meet benefit obligations and instability of contribution requirements;
- Excessive expenses;
- Service provider failures;
- Non-compliance with legislative and common-law requirements;
- Failure to meet the needs of Plan members and participating employers; and,
- Communications that are incorrect, untimely or inaccurate.

The Commission manages potential risk by developing and implementing these strategies:

- Implementing a Statement of Investment Policies and Procedures (SIP&P). The SIP&P outlines the Commission's investment beliefs, provides for diversification of asset classes, capital markets and investment managers, and defines a benchmark against which investment performance is measured. Compliance with the SIP&P is monitored independently and communicated to Plan members.
- Ongoing actuarial review of the Plan's funded status and contribution requirements. The actuary's performance is evaluated annually.
- An independent audit of the Plan.
- An annual report comparing the administrative costs for public sector pension plans.
- An Acquisition of Services Policy that outlines the requirements for tendering of services and contracts and retention of service providers.
- Performance reviews of service providers.
- A quarterly administration report from PEBA that includes reporting of performance in comparison to the standards set by the Commission.

Strategic Initiatives

- Legal counsel retained to consult on issues under deliberation and to review the contracts into which the Commission enters.
- A Business Continuity Plan (BCP) filed by PEBA with the Commission. The Commission also requests verification from all other service providers that they have BCPs.
- A Communications and Stakeholder Relations Policy that specifies the process for external communications.
- An annual review to ensure that the Commission's administrator is in compliance with legislative requirements.
- The requirement that Commission members review and sign the Commission's Code of Conduct and Conflict of Interest Procedures annually.
- A policy for training and development for Commission members (*Table 1.2*);
- A periodic checklist of major items identified as necessary for the administration of a pension plan provided to the Commission on a semi-annual basis. The checklist is verification that an activity has been carried out by the Commission and its delegates.
- Formal review and consultation with plan members, participating employers and other stakeholders regarding plan design.

Risk Management Activities

Activities planned for 2007

In 2007, the Commission planned to continue managing potential risk by undertaking these activities:

- Complete development of a funding policy;
- Develop a consultation process to facilitate the communication of funding issues;
- Continue the development of a policy manual;
- Conduct a third-party review of the agreement between PEBA and the Commission;
- Obtain a legislative compliance report;
- Finalize the Commission's Business Plan; and,

- Implement the Commission's Strategic Communications Plan.

Activities accomplished in 2007

- The Commission completed a Funding Policy that allows it to be proactive in managing the financial status of the Plan and helps to facilitate communication with stakeholders on the status of the Plan.
- The Commission developed a stakeholder consultation process that will allow it to consult with various stakeholders on plan design issues.
- The Commission continued work on its Policy Manual by approving policies for the Provision of Retirement Planning Information, Employer Communications, and the Funding Policy.
- The Commission received a copy of PEBA's Business Continuity Plan that outlines PEBA's procedures to continue to operate effectively in the event of a disaster that disrupts its operations and services.
- The Commission received a report on legislative compliance.
- The Commission reviewed and updated its Strategic Business Plan.
- The Commission moved forward with its three-year communications plan. This included:
 - The development and distribution of a four-page Annual Report Highlights document;
 - The development of materials and coordination with employers on the distribution of materials related to the Provision of Retirement Planning Information and Employer Communications policy;
 - Updating the MEPP Employer Administration Manual;
 - Developing resources to assist employers in communicating vital information to employees; and,
 - Developing and testing additional retirement planning material for presentations at retirement information sessions.

- The Commission approved the actuarial valuation of the Plan as at December 31, 2006. The Commission's actuary reported that the Plan was fully funded and had no solvency deficiency.
- The Commission reviewed the findings of the audit of the Plan's financial statements for the year ending December 31, 2006. The Plan's auditor, MNP, working with the Provincial Auditor, formed the following audit opinions for the year ended December 31, 2006:
 - MEPP financial statements are reliable;
 - MEPP had adequate rules and procedures to safeguard public resources and ensure compliance with authorities, except as reported in the Provincial Auditor's 2006 Report (Volume 1, Chapter 5 - Finance); and,
 - MEPP complied with authorities relating to financial reporting, safeguarding public resources, revenue raising, spending, borrowing and investing activities.
- The Commission reviewed a Report to Management on internal controls prepared by Meyers Norris Penny.
- The Commission reviewed the risk management activities undertaken in 2006 and implemented the 2007 Risk Management Plan to close the gaps in the Commission's risk management strategy.
- The Commission reviewed its Statement of Investment Policy and Procedures, including its:
 - Primary investment goals;
 - Investment decision hierarchy;
 - Investment beliefs, increasing the investment allocation to real estate; and
 - The inclusion of an infrastructure mandate.
- The Commission retained two infrastructure managers to manage a North American and a global infrastructure mandate.
- Independent confirmation of investment manager compliance with the Commission's Statement of Investment Policy and Procedures was reported to the Commission.
- The Commission received and reviewed reports on the investment performance of the Fund and each asset class in relation to benchmarks.

- The Commission reviewed the Periodic Checklist.
- The Commission received confirmation from its service providers that all have some form of code of conduct and conflict of interest policy and procedures in place within their organizations.
- All Commission members signed their Code of Conduct and Conflict of Interest Procedures for 2007.
- The Commission received quarterly administration reports from PEBA.
- A comparison of administration costs incurred by public-sector pension plans in other provinces was provided to the Commission.

Activities planned for 2008

In 2008, the Commission will focus on the following activities:

- Review and revise the Commission's funding policy.
- Conduct an annual risk management assessment. Determine if a third-party review of the risk management plan is needed.
- Link the objectives of the funding policy with the investment policy.
- Identify any risks associated with the plan based on the funding policy and develop a contingency plan for minimizing risks.
- Conduct an investment policy review.
- Implement a stakeholder consultation process that allows the Commission to consult with stakeholders on plan design issues.
- Conduct a third party review of PEBA's compliance with the agreement between the Commission and PEBA.
- Continue to develop the Commission's Policy Manual.

Strategic Initiatives

4. Service Delivery

Service Delivery is challenging given the nature of the pension plan and the variety and geographic distribution of members and employers within the Plan.

The Commission reviews its service delivery practices in an integrated and collaborative manner and implements changes that support their fiduciary obligations to plan members.

The focus of the Commission's service delivery is on:

- Identification of member and employer needs and preferences;
- Research of best practices within the industry to identify opportunities that have the potential to reduce cost or improve service; and,
- Analysis of the costs/benefits of potential delivery improvement opportunities.

The Commission monitors current practices and implemented changes to ensure their effectiveness in providing consistent levels of client service.

The contract for administrative services with PEBA establishes service standards for the tasks that PEBA performs for the Commission. Eight service standards are tracked, including termination option letters, pension estimates, and payments. (*Table 1.3*)

Service Delivery Activities

Activities planned for 2007

In 2007, the Commission planned to focus on the following service delivery priorities:

- Develop and communicate a policy on employer responsibilities under MEPP;
- Develop a stakeholder consultation process; and,
- Enhance measurement and reporting on MEPP communications.

Activities accomplished in 2007

- In 2007, the Commission developed a policy about employer responsibilities and the Plan's role in providing retirement planning information. The policy defines goals and

guidelines for sharing information. The policy was created to clarify roles and responsibilities and will be communicated to employers in 2008.

- A process for consulting with stakeholders was established in 2007. In 2008, MEPP will follow that process to discuss with stakeholders options to maintain the Plan.
- MEPP *Matters* newsletters and presentations were used to remind members and employers about MEPP *In-Depth* bulletins, which provide details about specific aspects of the Plan.
- PEBA hired a Customer Focus Coordinator (CFC) to liaise with Plan members and employers. The CFC will provide information regarding the Plan to members and employers and provide administrative information to employers.
- PEBA hired a Retirement Income Consultant

Strategic Initiatives

(RIC) to liaise with Plan members. The RIC will develop retirement information and conduct retirement information sessions for members starting in 2008.

- PEBA improved tracking of outstanding tasks to move toward meeting the service standards implemented in 2006.

Activities planned for 2008

- Develop and submit Request for Proposal to determine the vendor for the online Pension Calculator;
- Develop and roll out the online Pension Calculator;

- Track and measure MEPP telephone customer service and enhance telephone customer service capabilities;
- Review adequacy of the current number of Automated Call Distribution lines and adjust if required;
- Develop and distribute online forms;
- Initiate process review; and,
- Develop and distribute a training and support program for employers.

Service Standards for the period January 1 through December 31, 2007

Task	Number Completed	Number that Meet or Exceed Standard	% that Meet or Exceed Standard	Standard (Days)
Termination Option Letters	1,478	1,012	68	30
Pension Estimates	335	305	91	15
Breakdown of Spousal Relationship Calculations	39	7	18	5
Pensioner Deaths	117	100	85	10
Member Deaths	36	22	61	10
Payments	1,136	918	80	10
Purchase of Service	57	42	73	30
Portability Transfer Value	27	16	59	30
Totals	3,225	2,422	75	

Table 1.3

Strategic Initiatives

5. Plan Design

Over the coming years, MEPP can expect to face challenges as the Plan's membership moves closer to retirement.

The Commission is committed to ensuring that the Plan responds to these challenges and meets the needs of its members and employers.

As part of the Commission's Strategic Plan, the Commission will focus on:

- Reviewing, assessing and defining the role the Commission plays in sound pension administration;
- Developing and implementing strategies to determine member and employer needs and preferences; and,
- Identifying plan design responses to member and employer needs and preferences.

Activities planned for 2008

In 2008, the Commission will focus on the following activity:

- Implement the stakeholder consultation process that allows the Commission to meet and consult with stakeholders on plan design issues.

Plan Design Activities

Activities planned for 2007

- The Commission planned to continue developing the stakeholder consultation process begun in 2006.

Activities accomplished in 2007

- The Commission developed a stakeholder consultation process that allows it to consult with various stakeholders on plan design issues.

Investments

Trustees

As trustees of the Municipal Employees' Pension Fund, the Municipal Employees' Pension Commission is responsible for prudently investing the Fund's monies.

Investment Policy

In fulfilling its responsibility to prudently invest the Fund's assets, the Commission has adopted an investment policy for the Plan. This policy is set out in the Statement of Investment Policies and Procedures (SIP&P), which the Commission reviews annually.

The SIP&P contains guidelines for investment of Plan assets, and includes:

- Investment and risk philosophy;
- Asset mix and diversification policy;
- Rate of return benchmarks for each investment manager and for the Fund;
- Permitted and prohibited investments;
- Monitoring and control responsibilities;
- Selecting and terminating investment managers; and
- Conflict of interest guidelines.

Investment Managers

The Commission delegates responsibility for investing the Plan assets to professional investment managers. Each manager invests

within a specific mandate, as outlined in *Table 1.5*. Investment managers were paid a total of \$3,906,000 in 2007.

Investment Consultant

The Plan's investment consultant is Hewitt Associates. The investment consultant monitors the activities of the investment managers and reports the results to the Commission. The Commission paid Hewitt \$101,603 in 2007.

As of December 31, 2007 the investment managers invested the portions of the portfolio shown in *Figure 1.1*.

Custodian

The Commission retains RBC Dexia Investor Services Trust as the custodian of the Plan. The custodian is responsible for:

- Safekeeping of assets;
- Collection of income;
- Settlement of investment transactions; and
- Accounting for investment transactions.

RBC Dexia received \$207,000 in fees in 2007.

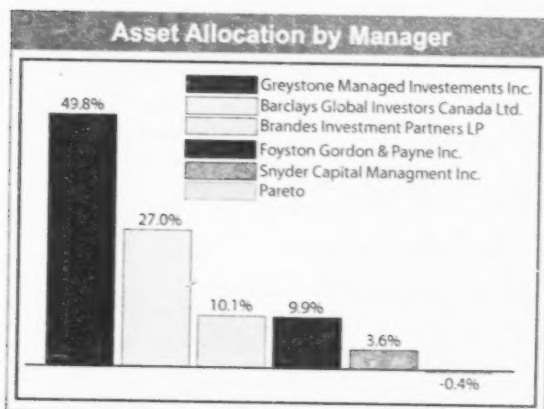


Figure 1.1

Fees Paid for Investment Services in 2007

Investment Managers (total)	\$3,906,000
Investment Consultant	101,603
Custodian	207,000
Total	\$4,214,603

Table 1.4

Figure 1.1 (left) shows the portion of the Fund's assets managed by the investment managers. Investment manager mandates are shown in *Table 1.5*.

Table 1.4 (above) shows the total fees paid for investment services in 2007.

Investments

Investment Manager Mandates

Investment Manager	Mandate
Babcock & Brown Infrastructure*	Infrastructure
Barclays Global Investors Canada Ltd.	Foreign Equities, Canadian Bonds
Brandes Investment Partners, LP	Non-North American Equities
Foyston, Gordon & Payne Inc.	Canadian Equities
Global Infrastructure Partners*	Infrastructure
Greystone Managed Investments Inc.	Balanced
Lincluden Management Ltd.**	Canadian Bonds
Pareto Investment Management Ltd.	Currency
Snyder Capital Management, LP	Foreign Equities

* Engaged as infrastructure manager in November 2007.

** Engagement with the Plan ended in June 2007.

Table 1.5

Table 1.5 (left) shows the mandates of the various investment managers.

Figure 1.2 (below) shows the benchmark asset mix by asset class. This is the combined mix of assets managed by the various investment managers.

Investment Objectives

Total Fund

The long term goal of the total Fund is to achieve a minimum annual rate of return of 3.5 per cent above inflation, as measured by the Consumer Price Index (CPI). The CPI is a measure of the average change over time in the prices of consumer goods and services. The Commission monitors and assesses this goal over the long term (10 years or more).

To achieve its goal, the Commission has established:

- A long-term strategic asset mix that is reflected by the Plan's benchmark (a standard against which performance is measured); and,
- An investment management structure consisting of one or more investment managers in each major asset class.

The Commission delegates day-to-day responsibilities for managing assets to the Plan's investment managers. Subject to the Plan's SIP&P, the managers may hold, buy or sell investments to achieve performance objectives set by the Commission for their mandates.

The Fund's main objective is to exceed the return of the benchmark portfolio, net of investment management fees, over a rolling four-year period.

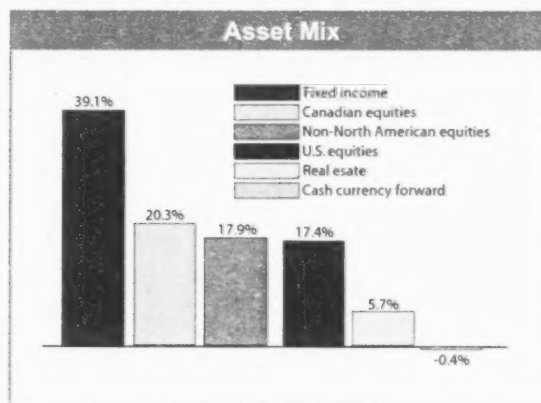


Figure 1.2

The Fund structure includes a balanced fund manager and a number of managers that specialize in various asset classes. The primary objective for the balanced fund manager is to earn a return, net of investment management fees, that exceeds the manager's benchmark portfolio return. A secondary objective is to earn returns above the benchmark index in each asset class within the balanced fund.

The returns of specialty managers are monitored for performance against the relevant asset class benchmarks. Active managers are tasked with exceeding a benchmark, while passive managers are engaged to match a benchmark. A manager's rate of return is also compared with those of a peer group of managers.

Investments

Plan Benchmarks by Asset Class

Asset Class	Class Market Index	Minimum Investment	Benchmark Portfolio	Maximum Investment
Canadian Equities	S&P/TSX CPMS Cap 10	15.0%	21.0%	30.0%
US Large Cap Equities	S&P 500 and S&P 500 Hedged	10.0%	14.0%	18.0%
US Small/Mid Cap Equities	Russell 2500	2.0%	4.0%	6.0%
Non-North American Equities	MSCI EAFE	14.0%	18.0%	22.0%
Canadian Bonds	SC Universe Bonds	22.0%	36.0%	54.0%
Real Estate	Investment Property Databank	3.0%	5.0%	8.0%
Short-term Investments	91 Day T-Bills	0.0%	2.0%	20.0%
			100.0%	

See Appendix 'A' for descriptions of market indices.

Table 1.6

Fund Performance

Fund Investment Performance

The Commission reviews the performance of the Fund in terms of the performance of a benchmark portfolio over rolling four-year periods. The performance of individual investment managers is measured against the objectives set for their individual portfolios.

The Fund's investment performance as at December 31, 2007 is summarized in Figure 1.3. The Fund had a return of 4.2% for the year ended December 31, 2007, outperforming the benchmark by 0.9 percentage points. Over the past four years, the Fund had an annualized return of 10.3%, exceeding the benchmark by a percentage point.

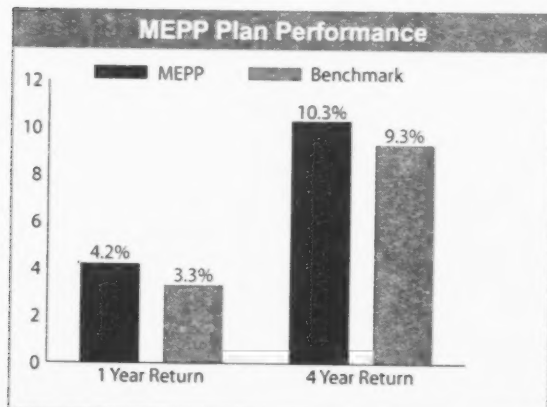


Figure 1.3

Balanced Manager

The balanced mandate, actively managed by Greystone Managed Investments Inc. (Greystone), is compared to a blended benchmark. Table 1.7 shows the balanced mandate benchmark indexes by asset class. Greystone's performance for each asset class it manages is included in the asset class analysis.

The balanced mandate provided a return of 5.8% in the year ended December 31, 2007, outperforming the benchmark by 2.6 percentage points. Over four years, the balanced mandate provided an annualized return of 10.9%, outperforming the benchmark by 2.0 percentage points. (Figure 1.4)

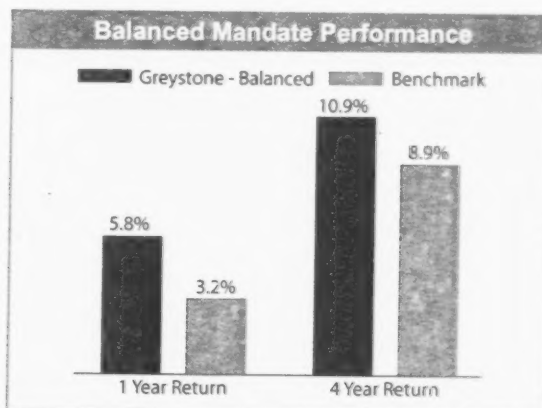


Figure 1.4

Investments

Balanced Mandate Benchmarks by Asset Class

Asset Class	Class Market Index	Minimum Investment	Benchmark Portfolio	Maximum Investment
Canadian Equities	S&P/TSX CPMS Cap 10	16.0%	22.0%	34.0%
US Large Cap Equities	S&P 500 & S&P 500 Hedged	5.0%	8.0%	12.0%
Non-North American Equities	MSCI EAFE	12.0%	16.0%	20.0%
Canadian Bonds	SC Universe Bonds	20.0%	40.0%	60.0%
Real Estate	Investment Property Databank	6.0%	10.0%	16.0%
Short-term Investments	91 Day T-Bills	0.0%	4.0%	35.0%
Mortgages		0.0%	0.0%	8.0%
		100.0%		

Table 1.7

Canadian Equity Managers

The Plan's Canadian equity managers are Greystone and Foyston Gordon & Payne Inc. (Foyston). Both are active managers and are measured against the S&P/TSX CPMS Cap 10. (Figure 1.5) Their complementary management styles help ensure diversification of the Fund's investments.

In the year ended December 31, 2007, Greystone's Canadian equity component returned 13.3%, outperforming the benchmark by 3.5 percentage points. Over four years, Greystone outperformed the benchmark by 3.5 percentage points, achieving an annualized return of 19.8%.

In 2007, Foyston returned 4.2%, underperforming the benchmark by 5.6 percentage points. Foyston's four-year annualized return of 15.3% is one percentage point below the benchmark.

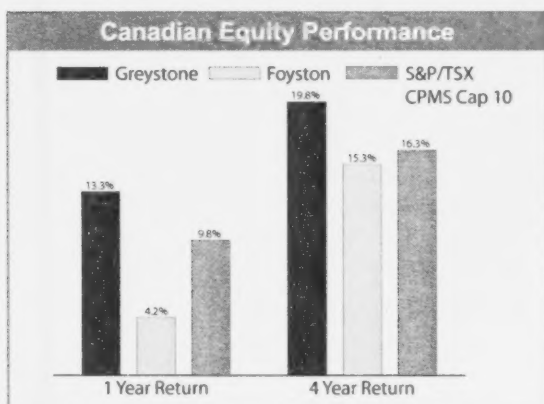


Figure 1.5

US Equity Managers

The Plan's US equity managers include Greystone, Barclays Global Investors Canada, Ltd. (Barclays), and Snyder Capital Management, LP (Snyder).

Greystone is an active manager measured against the benchmark S&P 500. Managing US large cap equities, Greystone realized a negative return of 2.5% in the year ended December 31, 2007, outperforming the benchmark by 8 percentage points. Greystone's four-year annualized return of 5.7% outperformed the benchmark by 3.6 percentage points. (Figure 1.6)

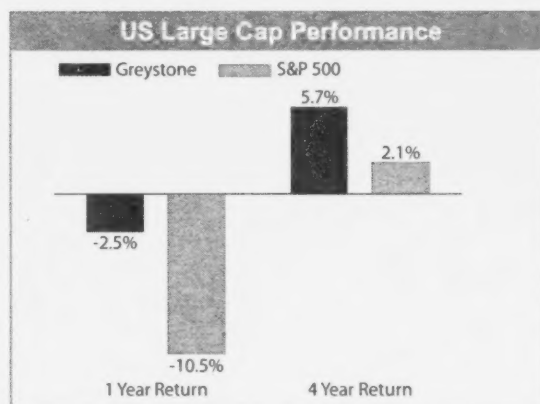


Figure 1.6

Investments

Barclays manages passive, hedged U.S. equity investments and is measured against the hedged S&P 500 Index. Barclays outperformed the benchmark by 0.1 percentage point, returning 3.9% for the year ended December 31, 2007. Over four years, Barclays matched the benchmark S&P 500 Hedged return of 8.4%. (Figure 1.7)

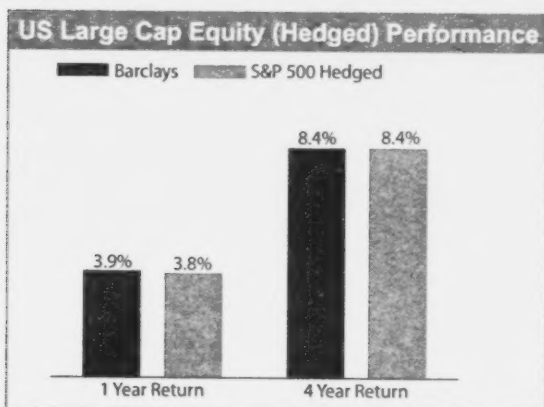


Figure 1.7

Snyder actively manages the small and mid-cap US equity portfolios. Because Snyder was new to the Plan in 2005, four-year performance figures are not available.

Snyder provided a return of -8.3% for the year ended December 31, 2007. This return outperformed the Russell 2500 index by 5.7 percentage points. (Figure 1.8)

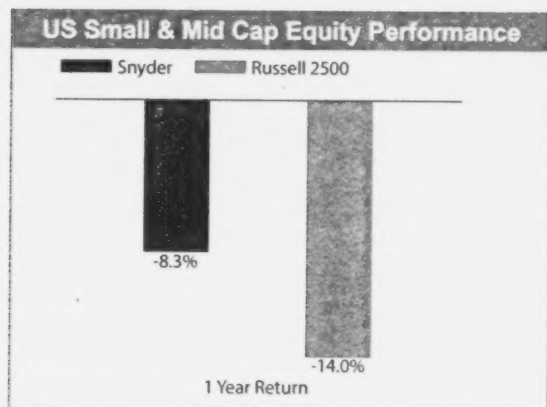


Figure 1.8

Non-North American Managers

The Plan's Non-North American investment managers include Greystone and Brandes Investment Partners, LP (Brandes). Their performance is measured against the MSCI EAFE.

Greystone and Brandes employ different management styles that complement one another, helping ensure diversification of the Fund's investments.

Greystone returned -2.2% in the year ended December 31, 2007, which outperformed the benchmark by 3.5 percentage points. Over four years Greystone provided a 10.4% return, outperforming the benchmark by 0.4 percent.

Brandes provided a -6.8% return for the year ended December 31, 2007, underperforming the benchmark by 1.1 percentage points. The four-year annualized return of 11.6% was 1.6 percentage points higher than the benchmark. (Figure 1.9)

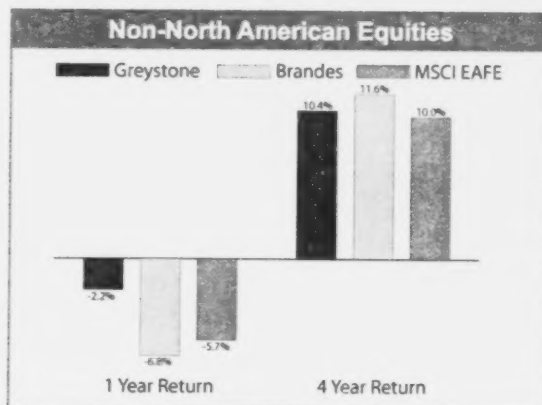


Figure 1.9

Real Estate Manager

Greystone is the manager for the real estate portfolio. Real estate provided a return of 19.4% for the year ended December 31, 2007. This return outperformed the estimated Investment Property Databank benchmark by 7.7 percentage points. Greystone's four-year annualized return was 20.4%, which is 5.1 percentage points above the estimated benchmark return for the same period. (Figure 1.10)

Investments



Figure 1.10

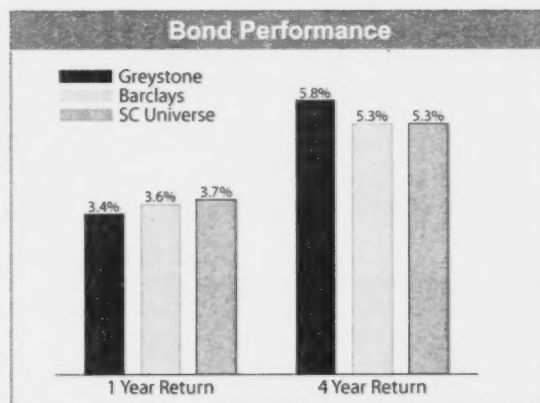


Figure 1.11

Bond Managers

The Plan's bond managers, Greystone and Barclays, are compared with the Scotia Capital Universe Bond Index (SC Universe), as shown in Figure 1.11.

For the year ended December 31, 2007, Greystone underperformed this benchmark by 0.3 percentage points, providing a return of 3.4%. Greystone's four-year annualized return of 5.8% was 0.5 percentage points above the benchmark.

Barclays, the Plan's passive bond manager, came in 0.1 percentage point below the benchmark for the year ended December 31, 2007, returning 3.6%. Barclays' four-year annualized return of 5.3% matched the benchmark.

Currency Manager

Pareto is the Plan's currency manager. Their mandate is to actively manage currency risk to reduce the impacts of foreign currency exposures on the Plan. They also add value to the Plan by trading major currencies for financial gain. Pareto's performance is benchmarked against a passive 50 per cent currency hedge.

For the year ended December 31, 2007, Pareto returned -3.1%, outperforming the benchmark by 0.7 percentage points.

Because Pareto was new to the Plan in 2006, four-year performance figures are not available.

Investment Returns (%) by Asset Class at December 31, 2007

	Annual Returns							
	Total Fund	Balanced Mandate	Canadian Equities	US Equities	Non-North American	Real Estate	Bonds	Currency (Hedged)
Return	4.2	5.8	9.0	-0.2	-4.8	19.4	3.2	-3.1
Benchmark	3.3	3.2	9.8	-2.9	-5.7	11.7	3.7	-3.8
	Rolling 4-year Average Returns							
	Total Fund	Balanced Mandate	Canadian Equities	US Equities	Non-North American	Real Estate	Bonds	Currency (Hedged)
Return	10.3	10.9	17.9	7.8	11.1	20.4	5.4	n/a
Benchmark	9.3	8.9	16.3	6.7	10.0	15.3	5.3	n/a

Table 1.8

Plan Expenditures and Statistics

Pension Payments

In 2007, MEPP made monthly pension payments to 4,013 pensioners, paying approximately \$38.6 million.

PEBA's service objectives are to ensure that all payments are made by their due dates and that all supplemental increases for pensioners are processed on a timely basis. PEBA met these objectives in 2007.

The number of member retirements in 2007 is shown in *Table 1.9*.

Retirement Comparisons		
	2007	2006
Normal Retirement	60	76
Early Retirement	84	104
Postponed Retirement	3	4
Temporary Pension	19	11
Total	166	195

Table 1.9

Plan Membership

Plan membership increased in 2007 in all member categories, as is shown in *Table 1.10*.

Plan Membership Comparisons

	2007	2006
Active	12,161	11,819
Inactive	4,314	3,861
Pensioners	4,013	3,914

Table 1.10

Income Allocation

In 2007, the Commission allocated interest to members' accounts at the rate of 7.32 per cent per annum.

Supplemental Increases for Pensioners

Effective January 2007, indexing of 2% was applied to defined benefit pensions earned on service prior to 1999.

Operating Expenditures

Table 1.11 shows plan operating expenditures for the year ended December 31, 2007.

Administration Expenses (000s)

Administration costs	\$2,720
Custodial fees	207
Investment consultant fees	102
Investment management fees	
Greystone Managed Investments Inc.	1,089
Foyston, Gordon & Payne Inc.	470
Brandes Investment Partners, LP	909
Barclays Global Investors Canada Ltd.	116
Snyder Capital Management, LP	515
Lincluden Management Ltd.*	152
Pareto Investment Management Ltd.	443
Babcock & Brown Infrastructure Fund North America LP**	212
	\$6,935

* Engagement with the Plan ended in June 2007.

** Engaged as infrastructure manager in November 2007.

Table 1.11

Plan Expenditures and Statistics

Active Employers

In 2007, there were 716 employers participating in the Plan.

The distribution of employers by employment sector is shown in Table 1.12 and Figure 1.12.

MEPP Active Employers		
	Number	(%)
Cities	7	1.0
Other	15	2.0
Regional Colleges	8	1.1
Regional Libraries	8	1.1
Rural Municipalities	296	41.3
School Divisions & Boards	25	3.5
Towns	144	20.2
Villages	213	29.8
Total Participants	716	100.0

Table 1.12

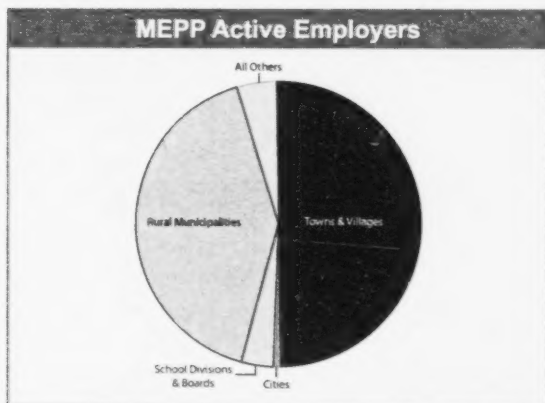


Figure 1.12

Active Members by Employer

The distribution of the Plan's active members by employer is shown in Table 1.13 and Figure 1.13.

MEPP Active Members by Employer		
	Number	(%)
Cities	1,047	8.5
Other	82	0.7
Regional Colleges	423	3.4
Regional Libraries	376	3.0
Rural Municipalities	1,108	8.9
School Divisions & Boards	7,843	63.4
Towns	1,082	8.7
Villages	424	3.4
Total Participants	12,385	100.0

The number of total participants in this table differs from the total active members in Table 1.10 because some members work for more than one employer.

Table 1.13

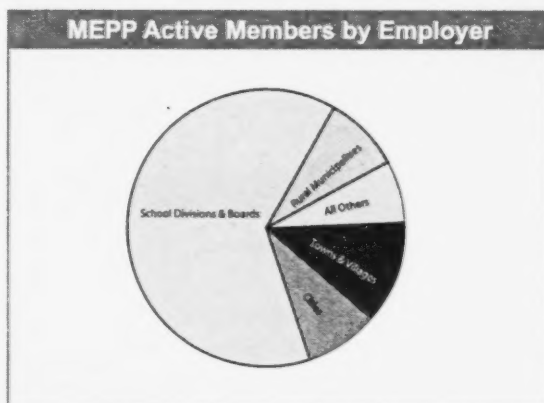


Figure 1.13

Management's Report

To the Members of the Legislative Assembly of Saskatchewan:

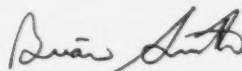
Administration of the Municipal Employees' Pension Plan is presently assigned to the Public Employees Benefits Agency of the Ministry of Finance. Management is responsible for financial administration, administration of funds and managing of assets.

The financial statements which follow have been prepared by management in conformity with Canadian generally accepted accounting principles. Management uses internal controls and exercises its best judgment in order that the financial statements fairly reflect the financial position of the Plan.

The Municipal Employees' Pension Commission reviews and approves the financial statements. In doing so, the Commission has had the opportunity to discuss the statements with management throughout the year.

The provision for annuity benefits and the accrued pension benefits are determined by an actuarial valuation. Actuarial valuation reports require best estimate assumptions about future events and require approval by management.

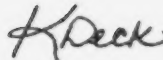
The financial statements have been audited by Meyers Norris Penny whose report follows.



Brian Smith
Assistant Deputy Minister
Public Employees Benefits Agency



Ann Mackrill
Director, Pension Programs
Public Employees Benefits Agency



Kathy Deck
Director, Financial Services
Public Employees Benefits Agency

Regina, Saskatchewan
February 21, 2008

Actuaries' Opinion

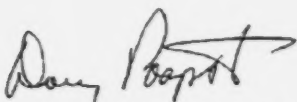
Eckler Ltd. was retained by the Municipal Employees' Pension Commission (the Commission) to perform actuarial valuations of the provision for annuity benefits and accrued pension benefits of the Municipal Employees' Pension Plan (the Plan) on an accounting basis as at December 31, 2006. Eckler Ltd. was further retained to extrapolate the results of this valuation to December 31, 2007.

The valuation and extrapolation were based on:

- Membership data provided by the Commission as at December 31, 2006;
- Asset data, provided by the Commission as at December 31, 2007;
- Methods prescribed by the Canadian Institute of Chartered Accountants for pension plan financial statements; and
- Assumptions about future events (economic and demographic) which were developed by management and Eckler Ltd. and are considered as management's best estimate of these events.

While the actuarial assumptions used to estimate liabilities for the Plan's financial statements contained in the Annual Report represent management's best estimate of future events, and while in our opinion these assumptions are not unreasonable, the Plan's future experience will differ from the actuarial assumptions. Emerging experience differing from the assumptions will result in gains or losses that will be revealed in future valuations, and will affect the financial position of the Plan.

We have tested the data for reasonableness and consistency with prior valuations and in our opinion the data is sufficient and reliable for the purposes of the valuation and the extrapolation. We also believe that the methods employed in the valuation and extrapolation and the assumptions used are, in aggregate, appropriate. Our opinions have been given and our valuations and extrapolation have been performed in accordance with accepted actuarial practice.



A. Douglas Poapst, FIA, FCIA
Eckler Ltd.

February 21, 2008

Municipal Employees' Pension Commission

Municipal Employees' Pension Plan

Financial Statements

Year Ended December 31, 2007

Auditors' Report



MEYERS NORRIS PENNY

To the Members of the Legislative Assembly of Saskatchewan

We have audited the statement of net assets available for benefits, accrued pension benefits and surplus of the Municipal Employees' Pension Plan as at December 31, 2007 and the statements of changes in net assets available for benefits and changes in accrued pension benefits and provision for annuity benefits for the year then ended. These financial statements are the responsibility of the Plan's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the net assets available for benefits of the Municipal Employees' Pension Plan as at December 31, 2007 and the changes in net assets available for benefits for the year then ended in accordance with Canadian generally accepted accounting principles.

Regina, Saskatchewan
February 21, 2008

A handwritten signature in cursive script, reading 'Meyers Norris Penny' followed by a flourish.

Meyers Norris Penny
Chartered Accountants

Municipal Employees' Pension Plan
Statement of Net Assets Available for Benefits, Accrued
Pension Benefits and Surplus

Statement 1

As at December 31

	(in thousands)			
	2007			2006
	Defined Benefit	Retirement Annuities	Total	Total
ASSETS				
Investments (Note 3)				
Short term	\$ 45,547	\$ 1,141	\$ 46,688	\$ 23,225
Bonds	256,808	6,435	263,243	380,199
Equities	374,401	9,381	383,782	407,123
Pooled funds	616,091	15,437	631,528	505,301
Mortgages	521	13	534	569
Real estate	79,091	1,982	81,073	66,635
	<u>1,372,459</u>	<u>34,389</u>	<u>1,406,848</u>	<u>1,383,052</u>
Accounts receivable				
Employees' contributions	1,422	-	1,422	1,239
Employers' contributions	1,422	-	1,422	1,239
Other receivables	383	10	393	377
Accrued investment income	3,093	77	3,170	4,656
	<u>6,320</u>	<u>87</u>	<u>6,407</u>	<u>7,511</u>
Due from General Revenue Fund (Note 4)	1,392	35	1,427	1,400
Cash	198	5	203	159
Total assets	<u>1,380,369</u>	<u>34,516</u>	<u>1,414,885</u>	<u>1,392,122</u>
LIABILITIES				
Accounts payable	1,249	32	1,281	1,194
Provision for annuity benefits (Statement 3, Note 8)	-	30,940	30,940	32,710
Total liabilities	<u>1,249</u>	<u>30,972</u>	<u>32,221</u>	<u>33,904</u>
NET ASSETS AVAILABLE FOR BENEFITS	1,379,120	3,544	1,382,664	1,358,218
Accrued pension benefits (Statement 3, Note 7)	1,223,958	-	1,223,958	1,151,904
SURPLUS	<u>\$ 155,162</u>	<u>\$ 3,544</u>	<u>\$ 158,706</u>	<u>\$ 206,314</u>

(See accompanying notes to the financial statements)

Municipal Employees' Pension Plan
Statement of Changes in Net Assets Available for Benefits

Statement 2

Year Ended December 31

	(in thousands)			
	2007			2006
	Defined Benefit	Retirement Annuities	Total	Total
INCREASE IN ASSETS				
Investment income				
Interest	\$ 16,127	\$ 422	\$ 16,549	\$ 18,041
Pooled funds	72,524	1,894	74,418	32,988
Dividends	8,154	213	8,367	7,033
Mortgages	23	1	24	25
Real estate	3,424	89	3,513	2,846
	100,252	2,619	102,871	60,933
Change in market value of investments	(42,641)	(1,114)	(43,755)	106,579
Contributions				
Employee contributions	19,211	-	19,211	17,777
Employer contributions	19,154	-	19,154	17,609
Reciprocal transfers in	1,055	-	1,055	388
Arrears contributions and interest	171	-	171	51
Inter-fund transfer	(371)	371	-	-
	39,220	371	39,591	35,825
Change in provision for annuity benefits (Statement 3, Note 8)	-	1,770	1,770	2,088
Total increase in assets	96,831	3,646	100,477	205,425
DECREASE IN ASSETS				
Transfers, refunds and benefit payments (Note 6)	30,462	-	30,462	27,221
Defined benefit payments	34,499	-	34,499	32,342
Annuities	-	4,135	4,135	4,281
Administration costs (Note 9)	2,750	72	2,822	2,540
Investment and custodial fees (Note 9)	4,008	105	4,113	3,365
Total decrease in assets	71,719	4,312	76,031	69,749
INCREASE (DECREASE) IN NET ASSETS	25,112	(666)	24,446	135,676
NET ASSETS AVAILABLE FOR BENEFITS, BEGINNING OF YEAR	1,354,008	4,210	1,358,218	1,222,542
NET ASSETS AVAILABLE FOR BENEFITS, END OF YEAR	\$1,379,120	\$3,544	\$1,382,664	\$1,358,218

(See accompanying notes to the financial statements)

Municipal Employees' Pension Plan
Statement of Changes in Accrued Pension Benefits and
Provision for Annuity Benefits

Statement 3

Year Ended December 31

	(in thousands)	
	2007	2006
ACCRUED PENSION BENEFITS, BEGINNING OF YEAR	\$1,151,904	\$1,087,954
Increase in accrued pension benefits		
Interest on accrued benefits	68,998	65,278
Benefits accrued	60,414	56,442
Transfer-in	1,055	439
Net experience loss	6,919	1,354
	<u>137,386</u>	<u>123,513</u>
Decrease in accrued pension benefits		
Transfers, refunds and defined benefits paid	64,961	59,563
Transfer to provision for annuities	371	-
	<u>65,332</u>	<u>59,563</u>
ACCRUED PENSION BENEFITS, END OF YEAR (Note 7)	<u>\$1,223,958</u>	<u>\$1,151,904</u>
PROVISION FOR ANNUITY BENEFITS, BEGINNING OF YEAR	\$ 32,710	\$ 34,798
Increase in provision for annuity benefits		
Interest on annuity benefits	1,850	1,973
New annuities purchased	371	-
Net experience loss	144	220
	<u>2,365</u>	<u>2,193</u>
Decrease in provision for annuity benefits		
Annuities paid	4,135	4,281
PROVISION FOR ANNUITY BENEFITS, END OF YEAR (Note 8)	<u>\$ 30,940</u>	<u>\$ 32,710</u>

(See accompanying notes to the financial statements)

Municipal Employees' Pension Plan Notes to the Financial Statements

December 31, 2007

1. Description of the Municipal Employees' Pension Plan

General

The Municipal Employees' Pension Plan (the Plan) is comprised of components including defined benefits, money accumulation benefits and retirement annuities. The following description of the Plan is a summary only. For more complete information, reference should be made to *The Municipal Employees' Pension Act*.

The Municipal Employees' Pension Act (the Act) provides authority for the Plan. The Act directs that all allowances, payments and refunds under the Act shall be payable out of the Plan in the manner provided in the Act together with all benefits granted under a former Act. The Municipal Employees' Pension Commission is responsible for holding in trust and investing the monies of the Plan. The Municipal Employees' Pension Commission's composition and authority to administer the Plan are provided in Section 7 of the Act.

Defined Benefit Component

The Defined Benefit Component became effective July 1, 1973. This Defined Benefit Component is mandatory for permanent employees and optional for some non-permanent employees.

A. Funding Policy

Effective January 1, 1993, contributions are established at 5.4% of salary (7.3% for police officers and firefighters). Contributions prior to January 1, 1993 were established at 7% of earnings net of deemed Canada Pension Plan contributions. Contributions are matched by the employer.

B. Pensions

Employees receive a pension at age 65 (age 60 for police officers and firefighters), for each year and fractional year of contributory service in the Plan prior to retirement that is determined as:

For service earned before 1990 and service earned after 2000 but before 2006, the number of years of contributory service during these periods times the greater of:

- a) 1.8% times the average salary for the highest three annualized years of the member's total pensionable service in the Plan (2% for police officers and firefighters); or
- b)
 - i) 1.3% of that portion of the member's average salary not exceeding the average yearly maximum pensionable earnings under the Canada Pension Plan; and
 - ii) 2% of that portion of the member's average salary exceeding the average yearly maximum pensionable earnings under the Canada Pension Plan.

For service earned after 1989 but before 2001 and service earned after 2005, the number of years of contributory service during these periods times the greater of:

- a) 1.5% times the average salary for the highest three annualized years of the member's total pensionable service in the Plan (1.7% for police officers and firefighters); or
- b)
 - i) 1.3% of that portion of the member's average salary not exceeding the average yearly maximum pensionable earnings under the Canada Pension Plan; and
 - ii) 2% of that portion of the member's average salary exceeding the average yearly maximum pensionable earnings under the Canada Pension Plan.

C. Retirement

Normal retirement is at age 65 for general members and age 60 for police officers and firefighters. Members may retire earlier under certain conditions.

The Plan also provides benefits in the event of termination of employment, death or disability.

D. Surplus

Any surpluses arising in the Plan can be utilized at the discretion of the Commission.

Money Accumulation Component

The Money Accumulation Component consists of members who made contributions to the Money Accumulation Component in effect prior to July 1, 1973. Members may retire and purchase an annuity at age 65. Members may retire earlier under certain conditions. Upon retirement a member can purchase an annuity from either the Plan or a private insurer based on employee and employer contributions together with the interest thereon. The annuity purchased from the Plan can be indexed or not. In the event of death prior to retirement, the member's spouse may receive a life annuity or elect to receive a lump sum payment of employee and employer contributions plus interest. If the member's beneficiary is other than the spouse, a lump sum payment of employee and employer contributions plus interest is made.

In addition, the accounts set up to record mandatory contributions made to the Plan prior to July 1, 1973, may also contain:

- voluntary employee and/or employer contributions made either before or after July 1, 1973 and until December 31, 1992;
- any excess employee funds transferred from the Defined Benefit Component pursuant to subsection 20(4) of *The Municipal Employees' Pension Act* up until December 31, 2000.

The Money Accumulation Component is included in the assets of the Defined Benefit Component and totals \$14,960,708 (2006 - \$15,269,037).

Retirement Annuities Component

If a member elects to purchase an annuity through the Commission, an annuity contract is issued based on the member's balance, current interest rates and annuity tables.

The present value of future annuities is reflected as a liability of the Plan.

Supplementary Benefits

In accordance with the Act, the Commission may grant supplementary benefits to those members receiving pensions and annuities to compensate them for lost purchasing power. The Commission may grant the supplementary benefits as long as the solvency of the entire Plan is not impaired.

Those annuitants who purchased indexed annuities are indexed using the Saskatchewan Consumer Price Index each January. The Commission has guaranteed indexation on pensions with service accrued before 1999 equal to the lesser of the increase in the Saskatchewan Consumer Price Index during the previous calendar year or an annual rate of 2%.

2. Significant Accounting Policies

These financial statements have been prepared in accordance with Canadian generally accepted accounting principles. The significant accounting policies are as follows:

Basis of Presentation

The Plan has disclosed financial results for its Defined Benefit and Retirement Annuities components separately. The Plan maintains a single investment portfolio and assets were allocated to the retirement annuities component at January 1, 2002 based upon the provision for annuity benefits as at that date. Investment income and operating expenses have been allocated between the two components based upon the market value of assets within each component.

Valuation of Investments

Investments in bonds and equities are recorded at market values based on quoted year end bid prices from recognized security dealers and accredited stock exchanges on which the security is principally traded.

Investment transactions are recorded on the trade date. Interest income is accrued monthly and dividend income is recognized on the record date.

Short-term investments are valued at cost, which approximates market value.

Pooled funds are valued based on the quoted market price of the underlying investments, normally the current bid price.

Real estate is valued at market value as estimated by independent appraisals.

Mortgages are valued at their net present value by discounting cash flows to current market rates of return.

Derivative financial instruments are financial contracts, the value of which is derived from changes in underlying assets or indices as measured at the closing date of the period being reported.

Derivative transactions are conducted in the over-the-counter market directly between two counterparties or on regulated exchange markets. All derivative financial instruments are recorded at market value using market prices. Where quoted market values are not readily available, appropriate valuation techniques are used to determine market value.

Foreign Currency

Transactions conducted in foreign currencies are translated into Canadian dollars using the exchange rate in effect at the trade date. Gains and losses arising on translation are included in the current period change in market value of the investments. Monetary items denominated in foreign currency are translated at the exchange rate in effect at year-end.

Provision for Annuity Benefits

Provision for annuity benefits represents the present value of the retirement annuities underwritten by the Plan and is determined pursuant to an actuarial valuation or extrapolation. Any change in the liability pursuant to the valuation or extrapolation is recognized as a revenue or expense item in that year's operations.

Recent Accounting Pronouncements

Effective January 1, 2008, the Plan will be required to adopt the Canadian Institute of Chartered Accountants (CICA) handbook sections 3862 – Financial Instruments – Disclosures, and 3863 – Financial Instruments – Presentation. Section 3862 provides standards for disclosure of the risks arising from financial instruments to which the Plan is exposed, and how the risks are managed by the Plan. Section 3863 provides standards for the presentation of financial instruments and non-financial instrument derivatives. The Plan does not expect the adoption of these new standards to have a material impact on its financial statements.

3. Investments

The investment objectives of the Plan are to ensure the Plan has sufficient assets to meet future pension obligations, to generate sufficient cash flow to meet pension payments, and to earn a real return of 3.5%. Due to the long-term horizon of the Plan's liabilities, the Plan takes a long-term investment perspective. The strategy employed to achieve these objectives is to use investment managers to invest cash flows from contributions, maturing debentures, and investment returns into assets such as equities, real estate, mortgages, derivatives, pooled funds and fixed income investments.

a) Interest Rate Risk

Interest rate risk refers to the adverse consequences of interest rate changes on the Plan's cash flows, financial position and income. This risk arises from differences in the timing and amount of cash flows related to the Plan's assets and liabilities. Interest rate risk is managed by investing in fixed income investments with varying duration.

The value of the Plan's assets is affected by short-term changes in nominal interest rates and equity markets.

b) Credit Risk

Credit risk arises from the potential for a counterparty to fail or for a counterparty to default on its contractual obligations to the Plan. The Plan limits the credit risk by dealing with

counterparties that are considered to be high quality. The credit ratings used to describe securities below are based on a recognized credit rating service.

The Plan uses credit lines with several major financial institutions to facilitate the settlement of its forward currency contracts. The credit lines are used to transfer gains and losses on the contracts to and from the Plan and normally have a nil balance.

c) Foreign Currency Risk

Foreign currency exposure arises from the Plan holding investments denominated in currencies other than the Canadian dollar. Fluctuations in the relative value of the Canadian dollar against these foreign currencies can result in a positive or negative effect on the value of investments. The Plan manages its foreign currency risk by limiting the investment in foreign funds, and through the use of derivatives (foreign exchange forward contracts, options, futures, rights, and warrants).

d) Market Risk

Market risk is the risk that the value of an investment will fluctuate as a result of changes in market prices, whether those changes are caused by factors specific to the individual investment, or factors affecting all securities traded in the market. The Commission's policy is to invest in a diversified portfolio of investments, based on criteria established in the Statement of Investment Policies and Procedures.

e) Liquidity Risk

The Plan is exposed to liquidity risk through its responsibility to pay pensions on a timely basis. The majority of Plan investments provide sufficient liquidity to support the Plan's required cash flows without impacting Plan asset mix.

f) Real Estate Risk

Risk in the real estate portfolio is managed through diversification across real estate types and locations. Adverse impacts in any one segment of the market or geographic location are minimized by having holdings diversified across property type, geographic location and investment size.

Short Term Investments

These investments are comprised of treasury bills, notes and commercial paper. Short-term investments held as of December 31, 2007 had effective interest rates of 1.9% to 4.8% (2006 - 1.9% to 5.5%) and an average term to maturity of 93 days (2006 - 91 days). The Plan's investment policy states that investments must meet a minimum investment standard of "R-1" or equivalent rating as rated by a recognized bond rating service. Other than the Government of Canada, no single issuer represents more than 15.4% (2006 - 13.8%) of the total Plan's short-term investments.

The Plan also utilizes a short-term investment fund (STIF) that holds short-term investments of high quality and low risk. Investments in the STIF may include cash, bank notes, corporate notes, government bills and various short-term debt instruments. At December 31, 2007, the Plan held \$5,059,799 (2006 - \$3,045,292) in the STIF.

Bonds

The Plan's investment policy states that bonds must meet a minimum quality standard of BBB as rated by a recognized bond rating service. In addition, not more than 15% of its total bond market value may be invested in BBB rated bonds. As at December 31, 2007, the Plan held 1.0% (2006 – 3.1%) of its portfolio in BBB bonds.

The Plan's investment in bonds are described below.

2007 (in thousands)

Years to Maturity	Supranational	Federal	Provincial	Municipal	Corporate	Total Market Value	Coupon Rate	Weighted Yield to Maturity
Under 5	\$ 2,419	\$ 93,465	\$ 10,631	\$ -	\$ 26,911	\$ 133,426	3.75 – 6.75%	4.4%
5 to 10	-	-	16,017	3,098	22,775	41,890	3.75 – 7.50%	4.8%
Over 10	-	20,651	43,817	1,146	22,313	87,927	4.45 – 8.75%	5.0%
Market Value	\$ 2,419	\$ 114,116	\$ 70,465	\$ 4,244	\$ 71,999	\$ 263,243		

2006 (in thousands)

Years to Maturity	Federal	Provincial	Municipal	Corporate	Total Market Value	Coupon Rate	Weighted Yield to Maturity
Under 5	\$ 128,671	\$ 11,000	\$ -	\$ 53,700	\$ 193,371	3.55 – 7.85%	4.5%
5 to 10	24,845	18,673	2,340	24,807	70,665	3.75 – 11.20%	4.8%
Over 10	43,320	45,819	1,171	25,853	116,163	4.45 – 9.90%	4.8%
Market Value	\$ 196,836	\$ 75,492	\$ 3,511	\$ 104,360	\$ 380,199		

Actual maturity may differ from contractual maturity because certain borrowers have the right to call or prepay certain obligations with or without call or prepayment penalties.

Equities

The Plan's investment policy allows no one holding to represent more than 10% of the market value of the related portfolio and no one holding to represent more than 10% of the common stock in any corporation.

The investment policy allows between 26% and 46% of the fund to be invested in foreign equities, including those held in pooled funds. As at December 31, 2007 the Plan held 7.1% (2006 – 7.7%) in foreign equities and 28.3% (2006 – 29.2%) in pooled foreign equity funds. Foreign equities are comprised of 49.5% (2006 – 48.4%) US equities and 50.5% (2006 – 51.6%) Non-North American equities.

All foreign equities are denominated in Canadian dollars.

The Plan's equities include common shares that have no fixed maturity date and are generally not exposed to interest rate risks. Dividends are generally declared on a quarterly basis. The average effective dividend rate is 2.1% (2006 – 1.8%).

Forward Contracts

The Plan has entered into foreign exchange forwards contracts to hedge some of its foreign currency exposure in equities. Foreign exchange forwards contracts are obligations in which two

counterparties agree to exchange one currency for another at a specified price for settlement on a predetermined date in the future.

The Plan uses a currency risk management program to manage the currency exposures inherent in the international equity investments of the Plan, as well as provide protection of the Canadian value of the portfolio. Forward contracts are used to hedge the foreign currency exposure within the Greystone EAFE Plus Fund and the Brandes Canada International Equity Unit Trust. The following summarizes the Plan's use of foreign currency forward exchange contracts within the currency risk management program:

FOREIGN EXCHANGE FORWARD CONTRACTS

(in thousands of dollars)

# of Contracts	Currency	2007				2006			
		Market Value	Notional Value*	Gain (Loss)	Net Exposure	Market Value	Notional Value*	Gain (Loss)	Net Exposure
-	Canadian Dollar	93,809	93,809	-	-	53,936	53,936	-	-
12	European Euro	(41,700)	(39,699)	(2,001)	57.8%	(15,830)	(13,960)	(1,870)	85.6%
2	Hong Kong Dollar	(2,641)	(2,612)	(29)	48.2%	(2,412)	(2,346)	(66)	52.6%
12	Japanese Yen	(28,103)	(25,891)	(2,212)	53.8%	(24,744)	(24,594)	(150)	58.8%
10	Pound Sterling	(19,572)	(19,458)	(114)	53.9%	(10,444)	(9,562)	(882)	78.7%
16	Swiss Franc	(6,520)	(6,149)	(371)	53.2%	(3,753)	(3,474)	(279)	80.4%
		(4,727)	-	(4,727)		(3,247)	-	(3,247)	

Net exposure is the percentage of investments denominated in foreign currency that are not hedged through forward exchange contracts.

The Active Foreign Currency Manager has two objectives within the Plan. The first is to hedge against the foreign equity exposures that exist in the underlying portfolio of Non-North American equity mandates. The Active Foreign Currency Manager's benchmark hedge ratio is 50% of the underlying portfolio, although the manager has the discretion to apply a hedge ratio between 0-100% of the underlying portfolio. Hedging is limited to those foreign currency exposures that are included in the MCSI EAFE Index and excludes any Canadian Dollar exposures.

The second objective of the Active Foreign Currency Manager is to add value to the Plan by generating returns from relative movements between foreign currencies. This second objective is independent of the first and is not restricted to those currencies that exist in the underlying portfolio. The following summarizes the Plan's use of foreign currency forward exchange contracts within the currency absolute return strategy program:

CURRENCY ABSOLUTE RETURN

(in thousands of dollars)

	2007		2006	
	Market Value	Notional Value*	Market Value	Notional Value*
European Euro	\$ (254)	\$ (254)	\$ 8,083	\$ 8,083
United States Dollar	435	254	(8,070)	(8,083)
Net gain	\$ 181	\$ -	\$ 13	\$ -
European Euro	\$ 270	\$ 270	\$ 9,114	\$ 9,114
Japen Yen	(815)	(270)	(8,793)	(9,114)
Net (loss) / gain	\$ (545)	\$ -	\$ 321	\$ -
Australian Dollar	\$ (114)	\$ (114)	\$ 689	\$689
United States Dollar	94	114	(687)	(689)
Net (loss) / gain	\$ (20)	\$ -	\$ 2	\$ -
United States Dollar	\$ 3,446	\$ 3,446	\$ (413)	\$ (413)
Japen Yen	(3,958)	(3,446)	349	413
Net loss	\$ (512)	\$ -	\$ (64)	\$ -

*Notional value represents the contractual amount to which a rate or price is applied in order to calculate the exchange of cash flows, and is therefore not recorded in the financial statements.

Based on the current rate of exchange as of December 31, 2007, the forward contracts under both Plan objectives are in a net loss position of \$5,623,374 (2006 – loss of \$2,975,260). The foreign currency forward exchange contracts are short-term in duration and all current contracts as of December 31, 2007 have a valuation date of April 22, 2008.

Pooled Funds

For liquidity reasons, the investment policy limits pooled fund holdings to not more than 10% of the market value of the individual pooled fund. Exceptions to the 10% limit are allowed if provision has been made to transfer securities in kind out of the pooled fund when assets are transferred out of the pooled fund.

The Plan's pooled funds are comprised of:

Pooled Fund	Units Held (in thousands)		% of Total Units Outstanding		Market Value (in thousands)	
	2007	2006	2007	2006	2007	2006
US Equity						
Barclays Hedged Pension US Equity Index Fund	11,945	11,949	18.36%	13.63%	\$145,791	\$140,424
Global Equity						
Greystone EAFE Plus Fund	10,809	9,140	6.55%	6.88%	109,714	110,364
Brandes Canada International Equity Unit Trust	9,366	8,151	13.18%	13.18%	141,881	153,133
Fixed Income Funds						
Barclays Universe Bond Index Class A Fund	11,565	5,187	7.25%	3.17%	234,142	101,380
					<u>\$631,528</u>	<u>\$505,301</u>

Pooled fund investments are governed by the policies for each fund. The Commission has reviewed the guidelines for the above funds and determined they are appropriate investment vehicles. Financial derivatives are permitted within the pooled funds as outlined below.

Barclays funds may contain equity index futures, to replicate the return of the S&P 500 Composite Index, and currency contracts used to hedge US dollar exposure back to the Canadian dollar.

Greystone is authorized to employ the use of derivatives to protect against losses from changes in exchange rates, interest rates and market indices. These derivatives may include such instruments as options, futures, and forward contracts.

Brandes may employ the use of foreign exchange contracts to hedge against changes in exchange rates and American depositary receipts to substitute for direct investment in the underlying security.

Mortgages

All mortgages are secured by Canadian commercial properties and have effective and stated interest rates of 5.5% (2006 - 5.5%) with an average remaining term to maturity of 0.7 years (2006 - 1.7 years). Principal and interest are receivable on a monthly basis.

Real Estate

Investments in real estate consist of Canadian commercial property.

Included in the totals for real estate are holdings of SaskPen Properties Ltd. totaling \$1,662,328 (2006 - \$2,739,760). SaskPen Properties Ltd. is a real estate corporation beneficially owned by Crown managed pension funds in the Province of Saskatchewan. Investment income including the current period change in the market value of investments from this holding totaled \$358,449 (2006 - \$397,654).

The Plan holds \$13,817,245 (2006 - \$7,675,527) in the Greystone Real Estate pooled fund. This represents 2.98% (2006 - 2.68%) of the total outstanding units.

Infrastructure Investments

Infrastructure investments are made through limited partnership arrangements. Advances are made to the limited partnerships, some of which is used to select and provide management support to the invested companies. The investments represent ownerships in entities that invest in infrastructure assets. During the year, the Plan entered into two limited partnerships related to their infrastructure investments.

Under one partnership, the Plan has committed to the investment of \$35,000,000 in US funds over a period of up to 20 years. Under the second partnership, the Plan has committed to the investment of \$35,000,000 in US funds over a period of up to 12 years.

As at December 31, 2007, there were nil funds advanced for infrastructure investments.

4. Due from General Revenue Fund

The Municipal Employees' Pension Plan's bank account is included in the Consolidated Offset Bank Concentration arrangement for the Government of Saskatchewan.

Earned interest is calculated and paid by the General Revenue Fund on a quarterly basis using the Government's thirty day borrowing rate and the Municipal Employees' Pension Plan's average daily bank account balance. The Government's thirty-day borrowing rate for 2007 was 4.3% (2006 - 4.0%).

5. Earnings Allocation to Members

Part of the change in market values of investments is allocated annually to members of the Plan. The maximum market value change deferred to future years is 3% of the total market value of investments at December 31 of each year. Unallocated changes are recognized equally in each of the three subsequent years. At December 31, 2007 the change in market value not yet allocated to members is a loss of \$8,470,107 (2006 - gain of \$41,491,539).

Interest is allocated annually to the individual member's account balances in accordance with the provisions of the governing legislation. In 2007 an interest rate of 7.32% (2006 - 12.0%) was approved by the Commission for the Money Accumulation Component and 7.32% (2006 - 12.0%) for the Defined Benefit Component. The interest allocated is investment income, the current year's allocation of the change in market values of the investments, less administration, custodian and investment managers' fees.

6. Transfers, Refunds and Benefit Payments

	(in thousands)	
	2007	2006
Transfers to other retirement plans	\$ 890	\$ 133
Transfer to other retirement vehicles	19,922	16,754
Lump sum payments to estates	1,563	1,368
Payments in lieu of annuities	2,508	418
Withdrawals with interest	5,579	8,548
	<u>\$30,462</u>	<u>\$27,221</u>

7. Accrued Pension Benefits

The actuarial present value of pension benefits for the Defined Benefit Component of the Plan was determined using the projected benefit method prorated on service and the administrator's best estimate of future investment performance, salary escalation, inflation, and future pension indexing.

An actuarial valuation was performed as at December 31, 2006 by Eckler Ltd. and they extrapolated the results of that valuation to December 31, 2007.

The pension liability is based on a number of assumptions about future events including interest rates, rate of salary increases, inflation, mortality, retirement rates and termination rates. The assumptions used in determining the actuarial present value of pension benefits for the Defined Benefit Component of the Plan were:

	<u>2007</u>	<u>2006</u>
Interest rate	6.0%	6.0%
Salary escalation rate	3.5%	3.5%
Inflation	2.5%	2.5%
Indexation of pensions	2% for pre-1999 benefits, 50% of inflation for post-1998 benefits	2% for pre-1999 benefits, 50% of inflation for post-1998 benefits
Mortality	UP94 (projected to 2015)	UP94 (projected to 2015)

Net experience gains and losses result from differences between actual and expected employee terminations, retirements, salary increases and deaths.

Actual rates may vary significantly from the long-term assumptions used. The following illustrates the effect of changing certain assumptions from the assumed escalation rates of salary 3.5%, interest rate 6.0% and pension indexing 1.25%. The changes in assumptions are independent of one another.

	Effect on Accrued Pension Benefits Liability					
	Salary		Interest Rate		Pension Indexing (post 1998)	
Assumptions	2.5%	4.5%	5.0%	7.0%	0.25%	2.25%
(Decrease) Increase	(3.4%)	3.9%	16.2%	(12.7%)	(3.7%)	4.5%

8. Provision for Annuity Benefits

The provision for annuity benefits was determined using the administrator's best estimate of future investment performance and future pension indexing. Eckler Ltd. performed an actuarial valuation of annuities as at December 31, 2006 and extrapolated the results of that valuation to December 31, 2007.

The actuarial valuation was based on a number of assumptions about future events including interest rates, pension indexing (for members who elected indexed annuities) and mortality as follows:

	<u>2007</u>	<u>2006</u>
Interest rate	6.0%	6.0%
Indexation of pensions	2.5%	2.5%
Mortality	UP94 (projected to 2015)	UP94 (projected to 2015)

The actual rates may vary significantly from the assumptions used. The following illustrates the effect of changing certain assumptions from the assumed interest rate of 6.0% and pension indexing of 2.5%. The changes in assumptions are independent of one another.

	Effect on Provision for Annuity Benefits			
	Interest Rate		Pension Indexing	
Assumptions	5.0%	7.0%	1.5%	3.5%
(Decrease) Increase	6.6%	N/A	(0.2%)	0.2%

In the future, increases on non-indexed annuities will be granted to the extent that smoothed investment earnings exceed 6.0%. While an increase in the interest rate above 6.0% would normally reduce the liability, in this case there would be a corresponding increase in the amount of annuities and the net affect on the liability would be zero. Excess interest increases for non-indexed annuities in any year will not be greater than the increase in the Consumer Price Index for the previous year.

The cash outflow to pay the required annuity obligation is calculated using the above assumptions. The cash outflows in the next 5 years would be \$17.8 million, in the next 10 years \$30.6 million and in the next 30 years \$46.5 million.

9. Administration Expenses

The annual operating expenditures associated with the Plan's administration are paid to the Public Employees Benefits Agency Revolving Fund except for custodial fees and investment management fees, which are paid directly.

(in thousands of dollars)

	2007		2006	
	Budget	Actual	Budget	Actual
	(unaudited)		(unaudited)	
Administration costs	\$3,275	\$2,822	\$2,943	\$2,540
Custodial fees	145	207	132	128
Investment management fees	3,723	3,906	2,843	3,237
	<u>\$7,143</u>	<u>\$6,935</u>	<u>\$5,918</u>	<u>\$5,905</u>

10. Related Party Transactions

All Government of Saskatchewan agencies such as ministries, corporations, boards and commissions are related since all are controlled by the Government. Costs charged by the Public Employees Benefits Agency Revolving Fund in administering the Plan are reflected in these financial statements.

The Plan holds \$2,198,789 (2006 - \$4,248,801) in Province of Saskatchewan Bonds. Investment loss on these bonds, including the current period change in the market value of investments, was \$113,282 (2006 - gain of \$168,643).

The Plan has an accounts payable balance as at December 31, 2007 of \$269,960 (2006 - \$167,516) due to the Public Employees Benefits Agency Revolving Fund.

Other related party transactions are disclosed separately in these financial statements.

Account balances resulting from the above transactions are included in the statement of net assets available for benefits and are settled at agreed upon exchange rates.

11. Investment Performance

The investment managers make day-to-day decisions on whether to buy or sell investments in order to achieve the long-term performance objectives set by the Commission. The Commission reviews the investment performance of the plan in terms of the performance of the benchmark portfolio over 4 year rolling periods. The primary long-term investment performance objective for the entire portfolio is to outperform a benchmark portfolio.

The following is a summary of the Plan's investment performance:

	<u>2007</u>	<u>Rolling Four Year Average Annual Return</u>
Plan's actual rate of return (a)	4.2%	10.3%
Target rate of return (b)	3.3%	9.3%

(a) The annual returns are before deducting investment and administration expenses.

(b) The Plan's target rate of return for its investment portfolio (return on the benchmark portfolio) has been determined using the actual returns of the market indexes such as the S&P/TSX Capped Composite Index, Standard & Poor's 500 Hedged U.S. Stock Index, Russell 2500 Hedged index, Morgan Stanley, Europe, Australia and Far East Index, Scotia Capital Universe Bond Index, 91 Day Canadian Treasury Bill, and Investment Property Databank Ltd. Return Index.

12. Fair Value

For financial instruments including due from general revenue fund, short-term investments, accounts receivable, and accounts payable, cost approximates fair value due to their immediate or short-term maturity.

The fair values of investments are considered to be market value, the calculation of which is detailed in Note 2. The fair value of the provision for annuity benefits, as well as the accrued pension benefits, cannot be readily determined; information about these liabilities is provided in Notes 7 & 8.

13. Contingencies

A union representing participating employees has applied by Notice of Motion, which also names several participating employers, for an order quashing purported decisions of the Commission relating to the application of actuarial surplus in the fund, as well as other relief. It is not possible to estimate the potential effect of the claim at this stage in the proceedings.

14. Comparative Figures

Certain comparative figures have been reclassified to conform to the current year's financial statement presentation.

Appendix 'A'

Description of Market Indices

S&P/TSX Composite

Effective May 1, 2002, the TSE 300 index is now known as the S&P/TSX Composite Index. The index comprises approximately 71 per cent of market capitalization for Canadian-based, Toronto Stock Exchange listed companies. It is calculated on a float market capitalization and is the broadest Canadian equity index available. The index also serves as the premier benchmark for Canadian pension funds and mutual market funds.

S&P/TSX CPMS Cap 10

S&P/TSX CPMS Cap 10 Index is a capitalization-weighted index comprised of all of the stocks included in the S&P/TSX Composite Index. The float capitalization weight of any stock that exceeds 10% of the S&P/TSX Composite Index is capped at 10% of the CPMS Cap 10 Index on a daily basis.

S&P 500

Standard & Poor's 500 Composite Stock Index consists of the largest 500 companies in the United States chosen for market size, liquidity and industry group representation. It is a market-value weighted index, with each stock's weight in the index proportionate to its market value. For the purposes of this report, the S&P Index returns are converted from U.S. dollars into Canadian dollars and, therefore, reflect currency gains or losses.

MSCI EAFE

Morgan Stanley Capital International Europe, Australia and Far East Index is a widely recognized benchmark of non-U.S. stock markets. It is an unmanaged index composed of a sample of companies representative of the market structure of 21 European and Pacific Basin Countries and includes reinvestment of all dividends. This index aims to capture 85% of the free float adjusted market capitalization in each industry group in each country. Individuals cannot invest directly in an index. The index is computed on a float-based capitalization.

SC UBI

Scotia Capital Markets Universe Bond Index covers all marketable Canadian bonds with term to maturity of more than one year. The Universe contains over 900 marketable Canadian bonds with an average term of 9 years and an average duration of 5.5 years. The purpose of the index is to reflect the performance of the broad "Canadian Bond Market" in a similar manner to the S&P/TSX Composite Index.

IPDCPI

The ICREIM/IPD Canadian Property Index is published by Investment Property Databank Ltd., under contract with the Canadian Institute of Real Estate Investment Managers. The index replaces the Russell Canadian Property Index, which was discontinued at the end of 2002. The IPD Index measures total returns on a diversified pool of properties. IPD compiles property level information from pension funds, life insurance companies and real estate managers on a quarterly basis. The index contains over 1,700 properties and is estimated to represent approximately 50% of institutional holdings and publicly listed vehicles.

Appendix 'A'

91-Day T-Bills

Canada Treasury Bills represent the highest quality short-term instruments available. The index is constructed by selling and repurchasing Government of Canada T-Bills with an average term to maturity of 91 days. The Scotia Capital 91-Day Treasury Bill Index is calculated and marked to market daily.

CPI

Consumer Price Index is used to gauge Canada's inflation rate. The series used is the all items, not seasonally adjusted, 1992 base.

Russell 2500

The Russell 2500 Index offers investors access to the small to mid-cap segment of the U.S. equity universe, commonly referred to as "smid" cap. The Russell 2500 is constructed to provide a comprehensive and unbiased barometer for the small to mid-cap segment and is completely reconstituted annually to ensure larger stocks do not distort the performance and characteristics of the true small to mid-cap opportunity set.

